

**REPORT OF THE AUDIT OF THE
NELSON COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2002**



**EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
www.kyauditor.net**

**144 CAPITOL ANNEX
FRANKFORT, KY 40601
TELEPHONE (502) 564-5841
FACSIMILE (502) 564-2912**

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE NELSON COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2002**

The Auditor of Public Accounts has completed the Nelson County Fiscal Court audit for fiscal year ended June 30, 2002. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

Financial Condition:

Fund balances increased by \$8,278,722 from the beginning of the year, resulting in a cash surplus of \$12,894,105 as of June 30, 2002.

Debt Obligations:

Total bonded debt principal as of June 30, 2002, was \$12,600,000. Future collections of \$19,487,127 are needed over the next 21 years to pay all bonded debt principal and interest.

Note principal agreements totaled \$846,784 as of June 30, 2002. Future principal and interest payments of \$943,535 are needed to meet these obligations.

Capital lease principal agreements totaled \$333,000 as of June 30, 2002. Future principal and interest payments of \$435,453 are needed to meet these obligations.

Deposits:

The fiscal court's deposits were insured and collateralized by bank securities or bonds.

Solid Waste Landfill:

An estimated \$4,655,268 is reported as landfill closure cost and \$5,675,981 postclosure care liability at September 9, 1994. Approximately 23.1% of the landfill airspace capacity has been used as of April 27, 2002. The projected date of closure is in the year 2017. No cost related to closure or postclosure care has been incurred to date. Actual cost may be higher due to inflation, changes in technology, or changes in regulations. Estimates are adjusted for inflation.

Subsequent Event:

On July 1, 2002, fiscal court entered into a contract to purchase Nelson County Emergency Services, Inc. for \$843,636.

CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT	1
NELSON COUNTY OFFICIALS	3
STATEMENT OF ASSETS, LIABILITIES, AND EQUITY ARISING FROM CASH TRANSACTIONS	7
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES	10
COMBINED STATEMENT OF CASH FLOWS-PROPRIETARY FUND TYPE	15
NOTES TO FINANCIAL STATEMENTS	16
SUPPORTING SCHEDULES:	
COMPARATIVE SCHEDULE OF BUDGETED TO ACTUAL OPERATING REVENUE	29
SCHEDULE OF OPERATING REVENUE.....	33
COMPARATIVE SCHEDULE OF FINAL BUDGET AND BUDGETED EXPENDITURES.....	37
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	41
APPENDIX A:	
CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS	



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Dean Watts, Nelson County Judge/Executive
Members of the Nelson County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and equity balances arising from cash transactions of Nelson County Kentucky as of June 30, 2002, the statement of cash receipts, cash disbursements, and changes in cash balances, and the related statement of cash flows for the year then ended. These financial statements are the responsibility of the Nelson County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Nelson County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The modified cash basis accounting system does not require an entity to maintain a general fixed asset group or a general long-term debt group of accounts.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and equity balances of Nelson County, Kentucky as of June 30, 2002, and its receipts and disbursements, and the cash flows of its proprietary fund type for the year then ended in conformity with the modified cash basis of accounting.



To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Dean Watts, Nelson County Judge/Executive
Members of the Nelson County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated September 26, 2002 on our consideration of Nelson County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Nelson County, Kentucky. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
September 26, 2002

NELSON COUNTY OFFICIALS

For The Fiscal Year Ended June 30, 2002

Fiscal Court Members:

Dean Watts	County Judge/Executive
Thomas W. Mattingly	Magistrate
Raymond Greer	Magistrate
Bernard Ice	Magistrate
Tim Hutchins	Magistrate
Amos Gritton	Magistrate

Other Elected Officials:

John Kelley	County Attorney
Austin Weller	Jailer
Phyllis Mattingly	County Clerk
Diane Thompson	Circuit Court Clerk
Mike Newton	Sheriff
Barbara Tichenor	Property Valuation Administrator
Joseph L. Greenwell	Coroner

Appointed Personnel:

Martha Wheeler	County Treasurer
Dixie Smith	Finance Officer
Dixie Smith	Occupational Tax Administrator
Dixie Smith	Personnel Officer
Bobby Hamilton	Road Supervisor
Joe Cambron	911 Administrator
Dorcus Figg	Jail Administrative Assistant

STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS

NELSON COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS

June 30, 2002

	<u>Governmental Fund Types</u>		<u>Proprietary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Capital Projects</u>	<u>Enterprise</u>	
<u>Assets and Other Resources</u>				
<u>Assets</u>				
Cash and Cash Equivalents	\$ 5,099,682	\$ 7,750,160	\$	\$ 12,849,842
Notes Receivable (Note 4)	102,928			102,928
Restricted Cash-				
Payroll Revolving Fund	1,330			1,330
Jail Canteen Fund			44,263	44,263
Total Assets	<u>\$ 5,203,940</u>	<u>\$ 7,750,160</u>	<u>\$ 44,263</u>	<u>\$ 12,998,363</u>
<u>Other Resources</u>				
Amounts to be Provided in Future Years:				
Bond Principal	\$ 1,595,000	\$ 11,005,000	\$	\$ 12,600,000
Note Principal	846,784			846,784
Lease-Purchase Principal	333,000			333,000
Landfill Closure Cost	4,655,268			4,655,268
Landfill Postclosure Care	5,675,981			5,675,981
Total Other Resources	<u>\$ 13,106,033</u>	<u>\$ 11,005,000</u>	<u>\$</u>	<u>\$ 24,111,033</u>
Total Assets and Other Resources	<u>\$ 18,309,973</u>	<u>\$ 18,755,160</u>	<u>\$ 44,263</u>	<u>\$ 37,109,396</u>

The accompanying notes are an integral part of the financial statements.

NELSON COUNTY
STATEMENT OF ASSETS, LIABILITIES, AND EQUITY
ARISING FROM CASH TRANSACTIONS
June 30, 2002
(Continued)

	Governmental Fund Types		Proprietary	Totals (Memorandum Only)
	General	Capital Projects	Fund Type Enterprise	
<u>Liabilities and Equity</u>				
<u>Liabilities</u>				
Bonds Not Matured: (Note 5)				
Series 1992	\$ 45,000	\$	\$	\$ 45,000
Series 1994	1,550,000			1,550,000
Series 2002		11,005,000		11,005,000
Deferred Revenue (Note 4)	102,928			102,928
Notes Payable: (Note 5)				
Landfill	67,500			67,500
Melody Lake Water Project	119,284			119,284
Shopping Center	660,000			660,000
Lease Agreements: (Note 6)				
Airport Hangers	44,000			44,000
Water Tank	74,000			74,000
Fire Truck	115,000			115,000
Airport Property	100,000			100,000
Landfill Closure (Note 7)	4,655,268			4,655,268
Landfill Postclosure Care (Note 7)	5,675,981			5,675,981
Payroll Revolving Liabilities	1,330			1,330
Total Liabilities	\$ 13,210,291	\$ 11,005,000	\$	\$ 24,215,291
<u>Equity</u>				
Retained Earnings:				
Reserved	\$	\$	\$ 44,263	\$ 44,263
Fund Balances:				
Reserved		7,750,160		7,750,160
Unreserved	5,099,682			5,099,682
Total Equity	\$ 5,099,682	\$ 7,750,160	\$ 44,263	\$ 12,894,105
Total Liabilities and Equity	\$ 18,309,973	\$ 18,755,160	\$ 44,263	\$ 37,109,396

The accompanying notes are an integral part of the financial statements.

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN CASH BALANCES

NELSON COUNTY
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN CASH BALANCES

For The Fiscal Year Ended June 30, 2002

	<u>General Fund Types</u>			
	Totals (Memorandum Only)	General Fund	Road and Bridge Fund	Jail Fund
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 12,662,352	\$ 5,739,513	\$ 1,149,391	\$ 608,508
Transfers In	1,907,781	55,000	550,000	802,781
Bond Proceeds	11,005,000			
Accrued Interest	21,814			
Re-offering Premium	15,602			
Lease Proceeds	100,000			
Jail Canteen Receipts	231,102			
	<u>\$ 25,943,651</u>	<u>\$ 5,794,513</u>	<u>\$ 1,699,391</u>	<u>\$ 1,411,289</u>
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 14,370,237	\$ 4,676,373	\$ 1,751,761	\$ 1,411,289
Transfers Out	1,907,781	1,202,781		
Bond Underwriter Fee (.65%)	71,494			
Principal on Leases	28,000			
Principal on Notes	504,202			
Principal on Bonds	545,000			
Jail Canteen Expenditures	238,215			
	<u>\$ 17,664,929</u>	<u>\$ 5,879,154</u>	<u>\$ 1,751,761</u>	<u>\$ 1,411,289</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ 8,278,722	\$ (84,641)	\$ (52,370)	\$ 0
Cash Balances - July 1, 2001	4,615,383	1,481,190	349,959	
	<u>\$ 12,894,105</u>	<u>\$ 1,396,549</u>	<u>\$ 297,589</u>	<u>\$ 0</u>
Cash Balances - July 1, 2002				

The accompanying notes are an integral part of the financial statements.

NELSON COUNTY
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN CASH BALANCES
For The Fiscal Year Ended June 30, 2002
(Continued)

General Fund Types					Capital Projects Fund Type	Enterprise Fund Type
Local Government Economic Assistance Fund	Occupational Tax Fund	Solid Waste Fund	Public Improvements Corporation Fund	Landfill Fund	Courthouse Complex Fund	Jail Canteen Fund
\$ 191,649	\$ 1,009,536	\$ 773,012	\$ 941,570 400,000	\$ 2,199,947 100,000	\$ 49,226 11,005,000 21,814 15,602	\$ 231,102
<u>\$ 191,649</u>	<u>\$ 1,009,536</u>	<u>\$ 773,012</u>	<u>\$ 1,441,570</u>	<u>\$ 2,299,947</u>	<u>\$ 11,091,642</u>	<u>\$ 231,102</u>
\$ 181,871	\$ 511,372 550,000	\$ 808,079 115,000	\$ 552,772 28,000 481,702 45,000	\$ 1,206,732 40,000 22,500 500,000	\$ 3,269,988 71,494	\$ 238,215
<u>\$ 181,871</u>	<u>\$ 1,061,372</u>	<u>\$ 923,079</u>	<u>\$ 1,107,474</u>	<u>\$ 1,769,232</u>	<u>\$ 3,341,482</u>	<u>\$ 238,215</u>
\$ 9,778 190,866	\$ (51,836) 266,651	\$ (150,067) 355,531	\$ 334,096 133,650	\$ 530,715 1,786,160	\$ 7,750,160	\$ (7,113) 51,376
<u>\$ 200,644</u>	<u>\$ 214,815</u>	<u>\$ 205,464</u>	<u>\$ 467,746</u>	<u>\$ 2,316,875</u>	<u>\$ 7,750,160</u>	<u>\$ 44,263</u>

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

STATEMENT OF CASH
FLows-PROPRIETARY FUND TYPE

NELSON COUNTY
STATEMENT OF CASH
FLOWS-PROPRIETARY FUND TYPE

For The Fiscal Year Ended June 30, 2002

	Enterprise Fund
	Jail Canteen Fund
	Canteen Fund
Cash Flows From Operating Activities:	
Cash Received from State Inmate Pay	\$ 1,451
Cash Received from Inmates and Sales	139,752
Cash Received from Other Receipts	61,048
Cash Received for Interest	1,212
Cash Paid for Inmate Supplies	(151,766)
Cash Paid for Other Expenses	(58,810)
Net Cash (Used) By Operating Activities	\$ (7,113)
Cash and Cash Equivalents - Beginning	51,376
Cash and Cash Equivalents - Ending	\$ 44,263
Reconciliation of Operating Loss to Net Cash	
Used by Operating Activities:	
Operating Loss	\$ (7,113)
Net Cash (Used) by Operating Activities	\$ (7,113)

The accompanying notes are an integral part of the financial statements.

NELSON COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2002

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Nelson County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the application of the criteria stated in GASB 14, the Nelson County Public Properties Corporation and Nelson County Public Improvements Corporation are considered as part of the reporting entity.

Nelson County Public Properties Corporation

The Nelson County Public Properties Corporation is a legally separate entity established to provide long-term debt service for the fiscal court. The Corporation's governing body consists entirely of Fiscal Court members. The fiscal court maintains the financial activity of the Corporation titled in the financial statements as the Courthouse Complex Fund. Therefore, management has included the Nelson County Public Properties Corporation as a component unit, and the entity's financial activity was blended with that of the Fiscal Court.

Nelson County Public Improvements Corporation

The Nelson County Public Improvements Corporation is a legally separate entity established to provide long-term debt service for the fiscal court. The Corporation's governing body consists entirely of fiscal court members. The fiscal court maintains the financial activity of the Corporation titled in the financial statements as the Public Improvements Corporation Fund. Therefore, management has included the Nelson County Public Improvements Corporation as a component unit, and the entity's financial activity was blended with that of the Fiscal Court.

Additional - Nelson County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Nelson County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

NELSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Nelson County Fiscal Court's Fund Types, a definition of each, and county funds included within each fund type are listed below.

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Nelson County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, Jail Fund, Local Government Economic Assistance Fund, Occupational Tax Fund, Solid Waste Fund, Public Improvements Corporation Fund and Landfill Fund.

2) Capital Projects Fund Type

Capital Projects Fund Type accounts for financial resources to be used for acquisition of major capital facilities. The Courthouse Complex Fund of the Fiscal Court is reported as a Capital Projects Fund Type.

3) Enterprise Fund Type

The Enterprise Fund Type is used to report an activity for which a fee is charged to external users for goods or services. The Nelson County Proprietary Fund Type includes the Jail Canteen Fund, which is maintained by the county jailer.

The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the jail canteen. Technical Audit Bulletin 93-002 provides additional accounting and expenditure guidance for acceptable jail canteen operations. All profit expenditures were for the benefit and/or recreation of the inmates.

NELSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Long-term receivables, deferred revenue, long-term obligations and amounts to be provided in future years to retire debt are recorded in the financial statements. The amount to be provided in future years to retire debt is offset by any cash or cash equivalents held by the county in a bond or debt service fund.

The State Local Finance Officer does not require the county to maintain a general fixed assets group of accounts; therefore the value of the county's fixed assets is not included in the financial statements. These fixed assets include buildings, equipment and land that are owned by the county.

D. Legal Compliance - Budget

The Nelson County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

E. Cash and Cash Equivalents

Cash and cash equivalents include amounts in bank accounts and certificates of deposit. For the purpose of the statement of cash flows, the county considers all investments with a maturity date of three months or less when purchased to be cash equivalents.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

NELSON COUNTY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2002
 (Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Related Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations of Nelson County Fiscal Court:

North East Nelson County Fire Department	Nelson County Library
Nelson County Soil Conservation Service	Nelson County Extension

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.41 percent. Hazardous covered employees are required to contribute 7 percent of their salary to the plan. The county's contribution rate for hazardous employees was 16.28 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement Systems' annual financial report.

Note 3. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of June 30, 2002, the county's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the county's agent in the county's name, or provided surety bond which named the county as beneficiary/obligee on the bond.

NELSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 4. Receivables

- A. The county loaned, at seven-percent interest, \$1,690, to 123 residents of the Melody Lake Area on March 1, 1997, for the purpose of providing water lines to their homes. Terms of the agreement stipulate a \$25.51 per month repayment schedule. Records indicate that the residents are in substantial compliance with the terms of the agreement. As of June 30, 2002, the principal balance due was \$45,142.
- B. The county loaned, at seven-percent interest, \$2,500 each to five residents, and \$1,800 to one resident of the Roberts Road Area on May 1, 1997, for the purpose of providing water lines to their homes. Terms of the agreement stipulate a \$29.03 per month for five residents and a \$20.90 per month for one resident. Records indicate that the residents are in substantial compliance with the terms of the agreement. As of June 30, 2002, the principal balance due was \$7,721.
- C. The county loaned, at six-percent interest, \$3,446 each to seventeen residents of the Bellwood Road Area #1 on March 1, 1998, for the purpose of providing water lines to their homes. Terms of the agreement stipulate a \$29.08 per month repayment schedule. Records indicate that the residents are in substantial compliance with the terms of the agreement. As of June 30, 2002, principal balance due was \$35,313.
- D. The county loaned, at 6.24 percent interest, \$2,167 each to twelve residents of the Bellwood Road Area #2 on December 1, 1997, for the purpose of providing water lines to their homes. Terms of the agreement stipulate a \$24.32 per month resident repayment schedule. Records indicate that the residents are in substantial compliance with the terms of the agreements. As of June 30, 2002, principal balance due was \$12,095.
- E. The county loaned, at six-percent interest, \$600 each to eleven residents, and \$850 each to two residents of the Keith Knob Road Area on December 1, 1998, for the purpose of providing water lines to their homes. The terms of the agreement stipulate a repayment of \$18.25 per month for eleven residents and \$25.86 per month for two residents. Records indicate that the residents are in substantial compliance with the terms of the agreement. As of June 30, 2002, principal balance due was \$2,657.

NELSON COUNTY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2002
 (Continued)

Note 5. Long-Term Debt

A. Correctional Facilities

On November 1, 1992, County of Nelson (Kentucky) Public Improvements Corporation issued first mortgage revenue bonds in the amount of \$370,000; the proceeds of which were used to refinance the remaining balance of a \$719,179 Kentucky Local Correctional Facilities Construction Authority loan to Nelson County. Bonds outstanding as of June 30, 2002 are \$45,000.

Fiscal Year Ending	Principal	Interest Rate	Interest
06/30/2003	<u>\$ 45,000</u>	5.00%	<u>\$ 1,125</u>

B. Solid Waste Disposal Facility

On November 22, 1994, County of Nelson (Kentucky) Public Improvements Corporation issued first mortgage revenue bonds series 1994 dated November 1, 1994, in the amount of \$4,320,000; the proceeds of which were applied to the acquisition and construction of the Nelson County Solid Waste Disposal Facility. Bonds outstanding as of June 30, 2002 are \$1,550,000.

Fiscal Year Ending	Principal	Interest Rate	Interest
06/30/2003	\$ 500,000	6.45%	\$ 91,913
06/30/2004	500,000	6.45%	59,663
06/30/2005	<u>550,000</u>	6.45%	<u>27,413</u>
Totals	<u>\$ 1,550,000</u>		<u>\$ 178,989</u>

C. Courthouse Complex

On February 15, 2002, Nelson County Public Properties Corporation issued first mortgage revenue bonds series 2002 dated March 1, 2002, in the amount of \$11,005,000; the proceeds of which is to be used to construct a courthouse complex. The Corporation has entered into the Lease with the Administrative Office of the Courts (AOC), whereby AOC will lease from the Corporation the courthouse complex at a rental amount equal to the sum of the Use Allowance and the Operating Cost Allowance with an exclusive option to renew the lease on July 1 of each even numbered year for a period of two (2) years. AOC is not required to lease for more than two years or to obligate itself for the rental for more than a two-year period. Bonds outstanding as of June 30, 2002 are \$11,005,000.

NELSON COUNTY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2002
 (Continued)

Note 5. Long-Term Debt (Continued)

C. Courthouse Complex (Continued)

Fiscal Year Ending	Principal	Interest Rate	Interest
06/30/2003	\$	3.00%	\$ 490,825
06/30/2004	370,000	3.00%	490,825
06/30/2005	380,000	3.00%	479,725
06/30/2006	395,000	3.25%	468,325
06/30/2007	405,000	4.00%	455,488
06/30/2008	420,000	4.00%	441,312
06/30/2009-2013	2,375,000	4-4.25%	1,933,538
06/30/2014-2018	2,930,000	4.375-5.00%	1,369,475
06/30/2019-2023	<u>3,730,000</u>	5.00%	<u>577,500</u>
Totals	<u>\$ 11,005,000</u>		<u>\$ 6,707,013</u>

D. Landfill

On April 12, 1995, County of Nelson (Kentucky) Public Improvements Corporation entered into an agreement to purchase land for a new landfill. The total debt of \$225,000 is payable over (10) years in equal installments of \$22,500 per year, plus interest calculated at the rate of 7% per annum. The balance as of June 30, 2002, is \$67,500.

Fiscal Year Ending	Principal	Interest
06/30/2003	\$ 22,500	\$ 4,725
06/30/2004	22,500	3,150
06/30/2005	<u>22,500</u>	<u>1,575</u>
Totals	<u>\$ 67,500</u>	<u>\$ 9,450</u>

NELSON COUNTY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2002
 (Continued)

Note 5. Long-Term Debt (Continued)

E. Melody Lake Water Project

On October 18, 1996, Nelson County Fiscal Court entered into an agreement to borrow \$250,000 from Farmers Bank and Trust Company to finance the Melody Lake Water Project. The total debt is payable over ten (10) years in equal installments, with interest calculated at 80% of prime. The balance as of June 30, 2002, is \$119,284.

Fiscal Year Ending	Principal	Interest
06/30/2003	\$ 23,050	\$ 3,971
06/30/2004	23,765	3,255
06/30/2005	24,693	2,327
06/30/2006	25,648	1,373
06/30/2007	22,128	388
Totals	<u>\$ 119,284</u>	<u>\$ 11,314</u>

F. Shopping Center

On May 22, 1998, the Nelson County Public Property Corporation entered into an agreement to borrow \$1,600,000 from Farmers Bank and Trust Company to assist in the development of a shopping center. The original note was payable over ten (10) years in equal semi-annual installments, with a 5.3% interest rate. The fiscal court applied an additional \$300,000 to the note principal during the year that reduced the balance and length of the note. The note will be paid in full May 22, 2006. The balance as of June 30, 2002, is \$660,000.

Fiscal Year Ending	Principal	Interest
06/30/2003	\$ 160,000	\$ 28,715
06/30/2004	160,000	24,182
06/30/2005	160,000	15,737
06/30/2006	180,000	7,353
Totals	<u>\$ 660,000</u>	<u>\$ 75,987</u>

NELSON COUNTY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2002
 (Continued)

Note 6. Lease Agreements

A. Airport Hangars

On April 14, 1992, the county entered into a lease agreement at a rate of 5.63% for airport hangars. The balance as of June 30, 2002, is \$44,000.

Fiscal Year Ending	Principal	Interest
06/30/2003	\$ 8,000	\$ 2,677
06/30/2004	8,000	2,151
06/30/2005	9,000	1,596
06/30/2006	9,000	1,004
06/30/2007	10,000	384
Totals	<u>\$ 44,000</u>	<u>\$ 7,812</u>

B. Water Tank

On January 5, 1993 the county entered into a lease agreement at a rate of 5.15% for a water tank. The balance as of June 30, 2002, is \$74,000.

Fiscal Year Ending	Principal	Interest
06/30/2003	\$ 11,000	\$ 4,239
06/30/2004	11,000	3,567
06/30/2005	12,000	2,870
06/30/2006	13,000	2,112
06/30/2007	13,000	1,318
06/30/2008	14,000	499
Totals	<u>\$ 74,000</u>	<u>\$ 14,605</u>

NELSON COUNTY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2002
 (Continued)

Note 6. Lease Agreements (Continued)

C. Fire Truck

On April 4, 2001, the county entered into a lease agreement at a rate of 3.99% for a fire truck. The balance as of June 30, 2002, is \$115,000.

Fiscal Year Ending	Principal	Interest
06/30/2003	\$ 11,000	\$ 5,508
06/30/2004	11,000	4,959
06/30/2005	12,000	4,390
06/30/2006	12,000	3,791
06/30/2007	13,000	3,172
06/30/2008-2011	56,000	5,969
Totals	<u>\$ 115,000</u>	<u>\$ 27,789</u>

D. Airport Property

On April 30, 2002, the county entered into a lease agreement at a rate of 4.50% for airport property. The balance as of June 30, 2002, is \$100,000.

Fiscal Year Ending	Principal	Interest
06/30/2003	\$ 5,000	\$ 5,074
06/30/2004	5,000	4,815
06/30/2005	5,000	4,555
06/30/2006	5,000	4,296
06/30/2007	5,000	4,037
06/30/2008-2012	25,000	16,300
06/30/2013-2017	25,000	9,823
06/30/2018-2022	25,000	3,347
Totals	<u>\$ 100,000</u>	<u>\$ 52,247</u>

NELSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 7. Closure and Postclosure Care Cost of Municipal Solid Waste Landfill

State and federal laws and regulations require the Nelson County Fiscal Court to place a final cover on its Municipal Solid Waste Landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste.

An estimated \$4,655,268 is reported as landfill closure cost and \$5,675,981 postclosure care liability at September 9, 1994. Approximately 23.1% of the landfill airspace capacity has been used as of April 27, 2002. The projected date of closure is in the year 2017. No cost related to closure or postclosure care has been incurred to date. Actual cost may be higher due to inflation, changes in technology, or changes in regulations. Estimates are adjusted for inflation.

Note 8. Subsequent Event

On January 28, 2002, Nelson County Fiscal Court entered into a contract for the purchase of the Nelson County Emergency Services, Inc. commonly referred to as Nelson County EMS. The total purchase price was \$843,636. The contract was executed on July 1, 2002.

COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

NELSON COUNTY
COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

For The Fiscal Year Ended June 30, 2002

<u>Budgeted Funds</u>	Budgeted Operating Revenue	Actual Operating Revenue	Over (Under) Budget
<u>General Fund Types</u>			
General Fund	\$ 5,241,226	\$ 5,714,513	\$ 473,287
Road and Bridge Fund	1,278,600	1,149,392	(129,208)
Jail Fund	514,902	633,508	118,606
Local Government Economic Assistance Fund	88,678	191,649	102,971
Occupational Tax Fund	912,000	1,009,536	97,536
Solid Waste Fund	760,000	773,011	13,011
Public Improvements Corporation Fund	1,033,400	941,570	(91,830)
Landfill Fund	1,686,000	2,199,947	513,947
<u>Capital Projects Fund Type</u>			
Courthouse Complex Fund	350,000	49,226	(300,774)
Totals	<u>\$ 11,864,806</u>	<u>\$ 12,662,352</u>	<u>\$ 797,546</u>
<u>Reconciliation</u>			
Total Budgeted Operating Revenue Above			\$ 11,864,806
Add: Budgeted Prior Year Surplus			3,800,000
Budgeted Borrowed Money			16,264,100
Less: Other Financing Uses			<u>(3,996,500)</u>
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures			<u>\$ 27,932,406</u>

THIS PAGE LEFT BLANK INTENTIONALLY

SCHEDULE OF OPERATING REVENUE

NELSON COUNTY
SCHEDULE OF OPERATING REVENUE

For The Fiscal Year Ended June 30, 2002

<u>Revenue Categories</u>	<u>GOVERNMENTAL FUND TYPES</u>		
	Totals (Memorandum Only)	General Fund Types	Capital Projects Fund Type
Taxes	\$ 4,056,403	\$ 4,056,403	\$
In Lieu Tax Payments			
Excess Fees	358,766	358,766	
Licenses and Permits	39,386	39,386	
Intergovernmental Revenues	2,850,284	2,850,284	
Charges for Services	2,926,221	2,926,221	
Miscellaneous Revenues	2,237,128	2,237,128	
Interest Earned	194,164	144,938	49,226
Total Operating Revenue	<u>\$ 12,662,352</u>	<u>\$ 12,613,126</u>	<u>\$ 49,226</u>

THIS PAGE LEFT BLANK INTENTIONALLY

COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

NELSON COUNTY
COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

For The Fiscal Year Ended June 30, 2002

Expenditure Categories	GENERAL FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 2,643,078	\$ 2,701,671	\$ (58,593)
Protection to Persons and Property	2,182,242	1,600,520	581,722
General Health and Sanitation	2,478,821	1,980,331	498,490
Social Services	204,305	143,427	60,878
Recreation and Culture	536,052	356,108	179,944
Roads	2,170,814	2,047,070	123,744
Airport	107,500	107,200	300
Bus Services	203,616	203,615	1
Debt Service	340,327	206,997	133,330
Capital Projects	451,982	289,703	162,279
Administration	3,899,569	1,463,607	2,435,962
Total Operating Budget - General Fund Types	\$ 15,218,306	\$ 11,100,249	\$ 4,118,057
Other Financing Uses:			
Principal on Leases	45,000	28,000	17,000
Principal on Notes	606,500	504,202	102,298
Principal on KARP	2,800,000		2,800,000
Principal on Bonds	545,000	545,000	
TOTAL BUDGET - GENERAL FUND TYPES	<u>\$ 19,214,806</u>	<u>\$ 12,177,451</u>	<u>\$ 7,037,355</u>
Expenditure Categories	CAPITAL PROJECTS FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 11,178,857	\$ 3,269,988	\$ 7,908,869
Administration	1,535,243		1,535,243
TOTAL BUDGET - CAPITAL PROJECT FUND TYPE	<u>\$ 12,714,100</u>	<u>\$ 3,269,988</u>	<u>\$ 9,444,112</u>

THIS PAGE LEFT BLANK INTENTIONALLY

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Dean Watts, Nelson County Judge/Executive
Members of the Nelson County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of Nelson County, Kentucky, as of and for the year ended June 30, 2002, and have issued our report thereon dated September 26, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Nelson County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Nelson County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management and is not intended to be, and should not be, used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
September 26, 2002

CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS

NELSON COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2002

CERTIFICATION OF COMPLIANCE

LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS

NELSON COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2002

The Nelson County Fiscal Court hereby certifies that assistance received from the Local Government Economic Development Program and Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Dean Watts
County Judge/Executive



Martha Wheeler
County Treasurer